

Message Text

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ACTION EUR-12

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USMISSION EC BRUSSELS

AMEMBASSY THE HAGUE

AMEMBASSY LONDON

AMCONSUL MILAN

AMCONSUL NAPLES

AMEMBASSY OTTAWA

AMEMBASSY PARIS

USMISSION OECD PARIS

AMEMBASSY STOCKHOLM

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E.O. 11652: N/A

TAGS: EFIN, IT

SUBJECT: ITALIAN EXCHANGE MARKET DEVELOPMENTS

1. SUMMARY. BALANCE OF PAYMENTS FOR FIRST HALF
NOVEMBER REGISTERED DEFICIT OF \$87 MILLION, RESULTING
IN CUMULATIVE ADJUSTED DEFICIT FOR TEN AND ONE-HALF
MONTH PERIOD OF \$7,063 MILLION. FIRST HALF NOVEMBER
DEFICIT FOLLOWING ADJUSTED OCTOBER DEFICIT OF \$544
MILLION AND ADJUSTED SEPTEMBER DEFICIT OF \$94 MILLION.
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BANK OF ITALY INTERVENTION IN MONTH OF NOVEMBER OF APPROXIMATELY \$650 MILLION SEEMED TO REFLECT STRENGTHENING OF DM AND, IN FIRST HALF OF MONTH, UNRESOLVED ITALIAN POLITICAL CRISIS. WEIGHTED AVERAGE DEVALUATION OF LIRA BETWEEN OCTOBER 1 AND NOVEMBER 28 AS 2.95 PERCENT ACCORDING TO BOI INDEX. SECOND DRAWING FROM IMF OIL FACILITY OF SDR 412.5 MILLION EXPECTED IN EARLY DECEMBER. END SUMMARY.

2. MONETARY MOVEMENTS DATA FOR FIRST HALF NOVEMBER SHOW DEFICIT OF \$87 MILLION. MAIN DEVELOPMENTS DURING PERIOD WERE DECREASE IN CONVERTIBLE CURRENCY HOLDINGS BY \$120 MILLION AND REPAYMENTS OF \$50 MILLION BY COMMERCIAL BANKS ON THEIR NET FOREIGN LIABILITIES. BOI SHORT-TERM LIABILITIES INCREASED BY \$11 MILLION, BOI MEDIUM-AND LONG-TERM LIABILITIES INCREASED BY \$7 MILLION AND BOI SDR HOLDINGS INCREASED BY \$1 MILLION.

3. RECORDED CUMULATIVE DEFICIT FOR TEN AND ONE-HALF MONTH PERIOD FROM JANUARY THROUGH NOVEMBER 15 WAS \$4,943 MILLION AND ADJUSTED CUMULATIVE DEFICIT (INCLUDING EUROMARKET BORROWINGS OF \$2,150 MILLION LESS \$30 MILLION BNL REPAYMENT) WAS \$7,063 MILLION. DEFICIT HAS BEEN FINANCED BY INCREASE IN BOI FOREIGN EXCHANGE ASSETS OF \$930 MILLION, REDUCTION OF SDR HOLDINGS OF \$186 MILLION, DECREASE IN NET IMF POSITION BY \$359 MILLION AS RESULT OF DRAWING-DOWN OF SUPER GOLD TRANCHE, REDUCTION IN BOI SHORT-TERM LIABILITIES BY \$334 MILLION, INCREASE IN MEDIUM-AND LONG-TERM BOI LIABILITIES OF \$5,078 MILLION (INCLUDING EC CREDIT, GERMAN GOLD COLLATERAL LOAN, IMF STANDBY LIABILITIES AND IMF OIL FACILITY DRAWING), AND INCREASE IN NET SHORT-TERM BORROWINGS OF COMMERCIAL BANKS OF \$584 MILLION.

4. ACCORDING TO HEAD OF BOI EXCHANGE OPERATIONS, ERCOLANI, NET MARKET INTERVENTION IN NOVEMBER WAS APPROXIMATELY \$650 MILLION. HEAVIEST INTERVENTION WAS IN MIDDLE OF MONTH, SO THAT DATA FOR FIRST HALF ONLY PARTLY REFLECTS THIS. INTERVENTION LATE IN MONTH SEEMS TO HAVE TAPERED OFF.
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5. ERCOLANI ALSO INDICATED THAT GOI WOULD MAKE SECOND DRAWING FROM IMF OIL FACILITY IN EARLY DECEMBER. FIRST DRAWING OF SDR 262.5 MILLION PLUS PROPOSED SECOND DRAWING OF SDR 412.5 MILLION WILL BRING ITALY'S USE OF THE FACILITY TO SDR 675 MILLION.

6. ON NOVEMBER 28, LIRA EXCHANGE RATE WAS 664.55 LIRE
PER DOLLAR. THREE-MONTH FORWARD RATE WAS 681.775
AND WEIGHTED AVERAGE DEVALUATION OF LIRE, ACCORDING
TO BOI INDEX, WAS 21.72 PERCENT, SLIGHTLY UP FROM
RECORD LOW OF 21.96 ON NOVEMBER 25. ACCORDING TO
INDEX, WEIGHTED AVERAGE DEVALUATION OF LIRA BETWEEN
OCTOBER 1 AND 31 WAS 1.85 PERCENT AND BETWEEN NOVEMBER
1. AND NOVEMBER 28 WAS 1.10 PERCENT. ALSO ON NOVEMBER
28 THREE-MONTH EUROLIRA INTEREST RATE WAS 20-3/4
PERCENT AND LIRA INTERBANK INTEREST RATES WERE 16.9375
(FORTY-EIGHT HOUR RATE) AND 18.3750 (THREE-MONTH RATE). VOLPE

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